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Why and How Insets should be included in the Overarching Principles Standard for UK Nature Markets (Flex 701) and subsequent standards

Consultation response by the Sustainable Soils Alliance

1. Background and Objective:

- In March, the British Standards Institute (BSI) launched for consultation the first version of its *Overarching principles standard for UK nature markets (Flex 701)*. The standard looks to establish a common definition for nature investments, designed to support the UK's environmental goals including reversing biodiversity loss and achieving net zero.
- The Flex 701 Standard will be followed by a series of 'nested' standards, starting with a specific Flex 703 (for carbon markets), and an equivalent for biodiversity. These will then be followed by landscape-specific standards that will likely address agricultural soils, blue carbon, hedgerow carbon etc.
- These standards look to establish the minimum requirements for the governance, measurement, reporting and verification of projects across all UK carbon projects, however the focal point so far has been on offsets.

This response argues that Flex 701 and the BSI's overall approach should be adapted to incorporate insets - the process whereby agri-food businesses can reduce their overall carbon footprint through interventions that are directly related to their own supply chain (products and services), also known as Scope 3 emissions.

It also lays out the context that lies behind this recommendation, including different approaches to insets and offsets accounting that makes the case for a variation in approach to their governance, as well as the policy framework that affects the international food and drink supply chain that should be taken into consideration.

Finally, and based on the above, this document lays out 5 options for how the BSI might approach insets, relevant for both Flex 701 and subsequent nature standards development.

2. Insetting in the current Flex draft

Flex 701 currently targets the domestic/homegrown offsets market, with the aim to establish trust among both farmers and investors. However, as it stands, the document states that BSI Flex does not specifically cover insetting, but that *“clauses in the standard might be relevant to organizations’ insetting activity.”*

In making the case that the document’s scope should be expanded to explicitly include insetting, we would draw the BSI’s attention to the following:

- **The insets ‘market’ is larger:** industry insights indicate that it is ‘within value-chain’ carbon reporting, rather than offsets, that is attracting the most investment today. In many cases, companies are willing to prioritise (and sometimes pay more for) within-supply chain mitigation than they are for offsets. This is because:
 - a) There are relatively few fully registered UK offset projects,
 - b) Agricultural offset projects in the UK are too small scale to be cost effective, especially when compared with the US for example and
 - c) Food and drink businesses are currently investing in insets both to meet their scope 3 targets and stimulate the transition to regenerative agriculture.
 - d) Insets enable a more collaborative and transparent relationship – a shared journey towards net zero targets – between the payer and the seller (farmer), than would emerge from a transaction with e.g. energy, aviation industries.

Farmers are being advised to retain carbon reductions/removals and biodiversity enhancement within their value chains as there is increasing demand from the companies they supply to demonstrate progress towards Scope 3 emission reduction targets, targets for nature and the management of nature-related risks to their business.

- **The agri-food sector will need removals in order to meet Net Zero:** While the commercial and economic drivers currently favour insets, the market is evolving rapidly and changes in policy, technology and the price of carbon could make offsets more attractive. It is worth noting for example that the Emissions Trading Scheme is currently consulting on whether nature-based carbon sequestration should be included in its scope – a step that will likely drive demand for nature-based offsets.

At this point, farmers of mineral soils (perhaps rather differently to managers of woodland or peatland) will face a clear choice - since they cannot do both at the same time - between engaging within their own value chain (insetting) or actors outside of their value chain (offsetting). Because some residual emissions in agriculture are unavoidable, these ‘removals’ will be needed if the food and drink supply chain is to reach net zero, however if this carbon sink has already been sold, these removals will no longer be accessible to them.

- **A two-tier market would be confusing:** Including insetting in the Nature Standards Programme has the potential to enhance the integrity and consistency of the insets market.

In contrast, a full or (as it stands) partial exemption for insets would undermine the perception that they are of equal integrity to offsets. The ‘informal’ application of the BSI standard to inseting might lead to fragmentation of, and friction within, the market with different players claiming that they are compliant with different clauses within the document – leading to a loss of trust and confidence.

- **Farmers need greater protection:** They are already under increasing pressure from multiple supply chain players to deliver Scope 3 reductions as a contract/licence to operate – i.e. without receiving commensurate financial support.

By extending the Nature Standards to cover insets, Flex 701 has the potential to provide farmers with an external mechanism – an incentivisation framework – that would protect them from supply chain customers that ‘require’ these actions, whilst supporting those customers that are looking to demonstrate tangible domestic benefits achieved. In other words, the inclusion of inseting could play an important role in preventing inseting from becoming simply a licence to operate without providing any form of quality control, support or compensation.

- **The document is inconsistent:** Flex 701 makes reference to the mitigation hierarchy – the principle that supply chain emissions reductions should come before compensating for residual emissions. If this logic is to be applied throughout the document, then it stands to reason that supply chain removals and reductions should have an equal or greater priority than offsetting, and that Flex 701 should look to promote these actions. To support this point further, there is also a reference in the section on avoiding double claiming where a within value chain example is used (i.e. a Scope 3 reduction).

In conclusion, excluding insets from the standard – either fully or partially – represents a missed opportunity to bring integrity to nature markets as a whole by standardising both mechanisms from valuing nature (insetting and off-setting) simultaneously and consistently. This would also ensure that the Standard remains viable and relevant in the long term, as the market evolves and matures. If BSI continues to exclude insets there is a risk that it creates a standard with limited market relevance on the supply side, and therefore limited, long-term impact.

3. International Context

When considering how insets should be covered by the BSI Nature Standards process, it is necessary to understand the international context – specifically the role of global protocols and reporting obligations for the food and drink supply chain – i.e. the rules many of them are already signed up to.

- To evidence the impact of their investment and guard against accusations of greenwashing, some leading corporates are looking to bring quality assurance to their inseting work. To do so, most are using the draft GHG Protocol Land Sector Removal Guidance (LSRG) and the Science-based Targets initiative SBTi FLAG guidance:
 - The GHG Protocol Land Sector Removal Guidance (500+ pages) provides details on how companies should measure progress/account for land-related emissions and

removals. However, it has been subject to delays and only exists in draft form, with some elements of its text getting pushback from industry on the grounds they would be challenging to implement. They have however ringfenced certain aspects that should be understood as 'agreed', and others that are subject to negotiation. The protocol authors (World Resources Institute) will not themselves accredit against the protocol - other (commercial) bodies will play this role, which is why it is important for BSI to provide guidance about how insets should be implemented in the UK.

- The SBTi FLAG Guidance and Tool, published in 2023, outlines how companies should set science-based targets for mitigation of land-related emissions and removals. The SBTi Guidance documents are currently under debate on the use of offsets. The clarification by BSI for the use of offsets and insets would provide important guidance to farmers as well as food and drink companies.
- Both SBTi FLAG and GHG Protocol LSRG currently state that reporting emissions is mandatory and reporting removals is optional, however these clauses are under constant review.
- Other standards, frameworks and guidelines exist or are in development (both national and sector-specific) for the reporting of insets and Scope 3 reductions. For example, private schemes, including Verra, are developing a Scope 3 protocol including a certification framework for Scope 3 interventions, a registry and a framework for the transfer of emissions claims. However, the GHG Protocol LSRG (even in draft form) and SBTi remain the 'north star' for businesses looking to demonstrate high integrity for their removals and emissions reductions.
- Whilst the focus of the international standards organisations has been on carbon until now, their attention is increasingly turning to biodiversity, water use etc. The World Business Council for Sustainable Development is in the process of drafting a biodiversity standard.

4. What this means for BSI

The evolving international 'policy' framework for in-supply-chain carbon accounting represents both a challenge and an opportunity for the BSI.

- However the BSI chooses to reflect insets within its standards, these would need to be compatible with the GHG LSRG and SBTi so as to avoid causing confusion and the impression that companies have to choose between an international and a UK pathway.
- As long as the BSI standard is demonstrably compatible it can act as a helpful pathway towards international assurance for UK compliant activities - including in the short term, while the Protocol remains in draft form.
- By explicitly stating that the BSI is aligned with LSRG and SBTi, BSI accreditation can be a useful route for relevant activities in the UK to be certified as broadly aligned - which would be valuable for the market. The LSRG and SBTi currently stop short of providing actionable methods

for quality assessment and leave considerable ambiguity that could be better resolved at a national level.

- From a practical point of view, the BSI can help bridge the gap between the LSRG, SBTi and the domestic market, making it easier for local accreditors to 'get on with it' - e.g. BSI would turn a set of guidelines into an actual standard against which companies can have their projects verified.
- A BSI insetting standard would provide an opportunity for the UK to show leadership in tackling the challenge of consistency that all markets are facing. By showing a clearer path to implementation of LSRG and SBTi approaches, the BSI could give UK carbon farming initiatives a competitive advantage globally. With appropriate validation and verification procedures, the UK BSI standard could be applied across international supply chains.
- In time, the BSI might decide to go over and above the LSRG and SBTi in the UK where a clear deficiency with those international standards exists, or where there is a tangible appetite for the UK to set a higher threshold and set a precedent for higher global standards in Scope 3 reporting.

5. Scope

BSI Flex is currently targeted at the offsets market, and is designed as a 'standard of standards', i.e., it will set the standards that codes like the Woodland Carbon Code and Peatland Code must comply to if they want the BSI kitemark to demonstrate their integrity. If the scope of BSI Flex were to extend to insetting activities, this would need to include:

- Intermediary/project owning organisations which have established procedures for governance and MMRV to provide farmers and those they supply with accurate and trustworthy evidence of emission reductions and removals. Project owners could get the BSI kitemark to demonstrate to clients (both farmers and companies with net zero targets) that it works to the highest levels of integrity.
- Insetting activities/projects undertaken by in-house teams of large corporates. They would get "their insetting activity BSI accredited" in just the same way as they would expect to get their insetting activity confirmed as aligning with LSRG or SBTi.

6. Opportunities/needs for variation

Whilst both insets and offsets require integrity and consistency, there are differences between the two markets that make the case for different, user-case specific approaches, and should be considered - in particular the different accounting methodology.

a. Accounting Methodology

The relationship between a land manager/farmer and carbon project gives rise to a different accounting methodology (inventory vs intervention).

With inventory accounting, additionality is not judged at the farmer/land manager level (e.g. field, farm, land parcel), but at the company level, which is reporting the carbon reductions and removals. Here,

reductions and removals across the supply chain are considered on a yearly basis, and yearly performance is assessed against what was being achieved before.

In some instances, the concept of additionality is replaced by the need to establish a causal link between buyer and seller and the right to a claim, i.e. can the reporting company demonstrate that they have contributed to causing the reported emission factors. However, in other instances no causal link is required – i.e. as long as net carbon emissions / reductions are demonstrated whoever pays for it is not relevant.

The principle of inventory accounting for within-supply-chain emissions and removals is reflected in both convention and now regulation, since the EU CSRD encodes the GHG Protocol into hard law. Inventory accounting is already being used for several inset programmes, (e.g. the SustainCert Value Change Initiative).

b. Other variations

Other variations that might be taken into consideration include:

- **Measurement, monitoring, reporting and verification (MMRV):** Although there are clear differences in the current MMRV methods and tools used by inseting and offsetting, in essence they are both reporting the same properties i.e. carbon removals and reductions. Ultimately MMRV should enable comparable reporting between inseting and offsetting. Although this is some way off there is considerable R&D effort looking at improving and harmonising tools and methods for both reporting requirements. Right now, there is an opportunity for the BSI standard to indicate where there is already consistency and then where and how inseting and offsetting deviate in reporting.
- **Verification:** Some corporates already have concerns about the integrity of their Scope 3 removals work and are working with offsetting codes to get independently verified units that they can retire, to ensure they are above question. EU CSRD requires verification of data being reported and relied on, so there is limited scope for inseting projects to be subject to different verification criteria.
- **Permanence:** Relationships between supply chain and farmers / land managers for inseting / Scope 3 reporting can endure over sufficient time periods to reflect “permanence”. However, food supply chain contracts are often more dynamic and flexible than would be expected in an offsetting project, and this may make the assessment of permanence more challenging.

For both inseting and offsetting the issue is about managing the risk of reversal and ensuring that MMRV assesses this adequately. For example, ‘permanence’ could be assessed differently via the different reporting routes (e.g. intervention vs inventory). For inseting (inventory), rather than having fixed permanence periods or fixed monitoring locations, there is greater scope for on-going monitoring across a supply-chain with provisions for either concluding that the risk of reversals has become negligible or that when monitoring ceases, reversals are assumed.

7. Options for BSI

The BSI should consider the following options in its approach to insets:

1. Explicitly include insetting in scope of the current document. Insetters would use an offsetting standard for their project - and retire those credits. However:
 - Such an approach would be more complex and therefore might be prohibitively expensive for projects – making the BSI kitemark for inset projects a luxury for only the wealthiest investors.
 - In order to remain compliant with any BSI-certified Code, no double-reporting would be allowed. In other words, only the company paying for the units would be able to claim them against their Scope 3 target, and nobody else in the supply chain. This would then limit its application to a small number of companies working directly with farmers in longstanding relationships, excluding anyone more than one link down the supply chain and those who regularly switch suppliers (as these farmers will want to hold onto any carbon for future suppliers).
 - It would also make it harder for supply chain non-competing companies to pool funding for nested Scope 3 claims (e.g. banks and food companies can legitimately both claim the benefit of a net zero farm, and a better solution is reached if both can add to the incentive pot for the farmer)
2. Explicitly exclude insetting: This would leave ‘regulation’ of the market to the GHG LSRG/SBTi – missing an opportunity to fill the gaps in these schemes reflecting the unique circumstances of UK farming (see above).
3. Partially include insetting: The Status Quo - i.e. *clauses in the standard might be relevant to organisations’ insetting activity*. This informal application of the BSI standard to insetting might lead to a fragmentation of the market with different players claiming compliance with different clauses – and a resulting loss of trust and confidence.

Alternatively we would favour a more explicit, clearer demonstration of how/where/why insetting sits within Flex 701 and future Standards. This in turn would require a decision at what level in the hierarchy the various elements of insetting need to be considered – i.e. whether the BSI should create a dedicated insetting standard that links to these standards or to integrate insetting into both the carbon and biodiversity standards, creating a thread/pathway throughout.

The decision taken should reflect the fact that the governance of insetting is significantly different to offset markets, that it requires alignment with different international protocols, and that insetting activities can apply to either carbon reductions/removals and the reduction or offsetting of other impacts on nature (e.g., biodiversity).

4. Developing a dedicated insetting Standard within the Programme for insetting only. This could sit within the ‘nested hierarchy’ at the same middle tier as BSI Flex 702 and 703 (i.e. this would become BSI Flex 704). Flex 701 would need to explain the overriding logic of this structure, and habitat and land use specific standards sitting at the bottom level of the hierarchy could then be

used either in combination with BSI Flex 702 or 703 (for carbon and biodiversity offset markets) or 704 for any kind of insetting.

Cross references could be made between BSI 704 to the other standards in the middle tier of the hierarchy, so that it focuses primarily on the distinctive aspects that are unique to insetting, linking to relevant aspects of 702 or 703 (depending on whether the insetting activity pertains to biodiversity or carbon) where these also apply to insetting (e.g. MMRV for insetting and offsetting could be expected to meet the same standards).

5. Integrated approach: Alternatively, there is an argument for a more integrated approach whereby the differences between the insets and offsets markets justify a different approach. The foundations for these variations by use case could be explained in the principles standard (Flex 701) and then further elaborated in the specific standards that follow, for example providing expert support to both the carbon and biodiversity teams to identify elements that would need to be missed or adapted for use in insetting.

Integrating insetting into the carbon and biodiversity standards would reduce the number of standards companies need to certify to, reducing complexity and cost, but would involve some duplication of content between the two existing standards around insetting, which would need to be replicated across all subsequent standards created.

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